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Chief,

12 October 1950

Legal Staff

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Federal Tax on Dependency Allowances

1. This will confirm the tax status of certain allowances as verbally explained to Mr. Strong in answer to your memorandum of 21 September 1950.

25X1 2. In view of the ban on dependents at the installation, hired for the are receiving a separation allowance while they are overseas, for the support of their dependents. You had asked whether this allowance is subject to Federal income tax.

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3. For Government employees overseas there are certain items excluded from gross income for purposes of the Federal tax. These include the allowances indicated in Executive Order 10011 which fall into three categories:

a. Cost-of-living allowances:

- (1) Post allowances
- (2) Special post allowances
- (3) Transfer allowances
- (4) Separation allowances

b. Living-quarters allowances (including temporary lodging allowances).

c. Representation allowances.

4. Thus, the separation allowance is excluded as a taxable item from the gross income received by as Federal employees. However, under their cover status their relationship to the Federal Government can not be disclosed, and the exclusion of these items is not applicable in the case of private individuals employed by a private corporation. The employee is thus denied a benefit to which he would be entitled if cover was not required. There are several solutions to the problem, depending on the facts, and the Legal Staff will be pleased to assist you on request.

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*see memo dtd
25 Sept. 1950.*

cc: Subject - (excised copies for Legal Decisions and Vital Documents)